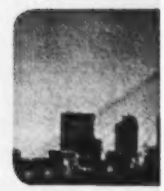
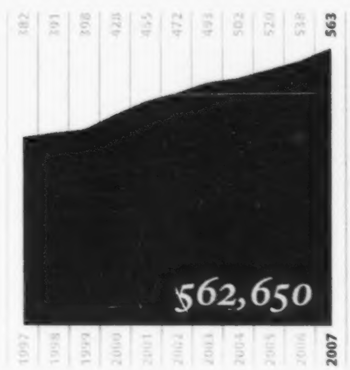
Credit Union Central *of* Manitoba

ANNUAL REPORT



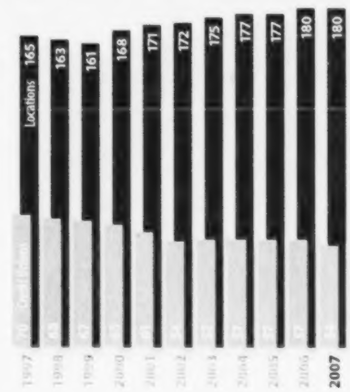



Memberships (thousands)



Memberships in Manitoba credit unions increased by 24,943 in 2007. Of the 562,650 memberships in Manitoba credit unions at year-end, 249,056 (44%) were in Winnipeg-based credit unions and 313,594 (56%) were in credit unions outside Winnipeg. 41% of Manitobans deal with credit unions — far more than any other financial institution — and 81% of those who do identify a credit union as their primary financial institution.

Number of Credit Unions & Locations



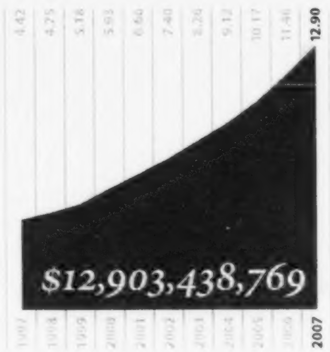
Mergers in the calendar year 2007 — which included Assiniboine, Vantis and Astra (Assiniboine) on January 1 and Crosstown and Civic (Crosstown Civic) on July 1 — brought the number of credit unions down from 57 in 2006 to 54 at the end of 2007. The number fell by a further two on January 1, 2008, when the mergers of Assiniboine and Buffalo (Assiniboine) and Belgian and Alliance (Belgian-Alliance) came into effect (not reflected in graph above). Despite the merger activity, there are still 180 credit union branches in the province and the number of credit union-branded ATMs increased to 202 by year-end, thus adding to the provincial and national surcharge-free credit union network where members can use any credit union ATM without paying more than they would at their home branch.

Manitoba Credit Unions

serve 117 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.

Altona • Amaranth • Angusville • Arborg • Ashern • Austin • Baldur • Beausejour • Belmont • Benito • Birds Hill • Binscarth • Birtle Boissevain • Brandon • Bruxelles • Carberry • Carman • Cartwright • Cypress River • Dauphin • Deloraine • Dominion City • Emerson Erickson • Eriksdale • Ethelbert • Flin Flon • Foxwarren • Fisher Branch • Gimli • Gilbert Plains • Gillam • Gladstone • Glenboro • Glenella Grandview • Gretna • Grunthal • Hamiota • Hartney • Headingley • Holland • Inglis • Inwood • Kenton • Killarney • Lac du Bonnet Landmark • La Riviere • La Salle • Lowe Farm • MacGregor • Manitou • Mariapolis • McAuley • Melita • Miami • Miniota • Minitonas Minnedosa • Minto • Moosehorn • Morden • Morris • Neepawa • Newdale • Ninette • Niverville • Oak Bank • Oak Bluff • Oak Lake Oak River • Oakburn • Oakville • Pilot Mound • Pinawa • Pine Falls • Pine River • Plum Coulee • Plumas • Portage la Prairie • Reston Rivers • Riverton • Roblin • Rorketon • Rosenort • Rossburn • Russell • St. Lazare • Ste. Rose du Lac • Sandy Lake • Sanford • Selkirk Shilo • Shoal Lake • Souris • Sprague • Starbuck • Steinbach • Stonewall • Strathclair • Swan Lake • Swan River • Teulon • The Pas Thompson • Treherne • Virden • Vita • Waskada • Whitemouth • Winkler • Winnipeg • Winnipeg Beach • Winnipegosis

System Assets (billions of dollars)

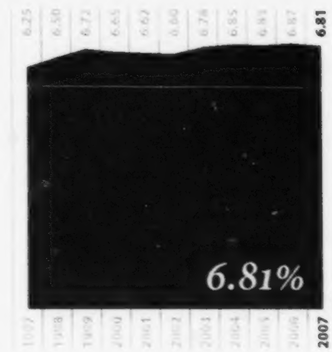


Total credit union assets stood at $12,903,438,769 on December 31, 2007. Winnipeg-based credit unions account for $5.56 billion (43%) of total assets and credit unions outside Winnipeg account for $7.34 billion (57%). Collectively, credit union assets grew by 12.6% over 2006. This is the provincial credit union system's eighth straight year of double-digit asset growth, and assets have doubled in the six years since the third quarter of 2001.

Loans and Deposits (billions of dollars)

2007 again saw double digit growth in both loans and deposits. All categories of loans grew by 12.34%, led by personal loans at 14.58% — of which residential mortgages showed a 19.34% increase. Commercial loans, being mainly real estate secured, showed growth of 13.97% while agricultural loans grew by 7.13%. Credit unions continued to attract deposits by offering members and potential members highly competitive rates, resulting in a 12.65% increase in deposits from year-end 2006.

System Equity (as a percentage of assets)



Consolidated system equity grew by $90.8 million over the course of 2007, ending the year at $878.8 million. This figure includes $767.4 million in credit union equity and $111.8 million held by the Credit Union Deposit Guarantee Corporation (CUDGC), offset by a net deficit of $0.4 million held by CUCM, whose policy is to return most earnings to its owners and retain only a small reserve.*

A strong equity position is a key measurement of the strength of credit unions and the entire Manitoba system. In addition to the security that comes from a strong equity position, CUDGC provides a 100% guarantee on all member deposits.

** Comprising ($ millions):*

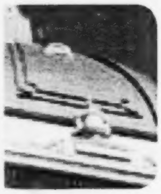
CUCM deficit	(1.6)
Non–credit union shares	1.2
Net deficit	(0.4)

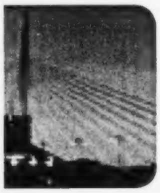
All figures preliminary unaudited results

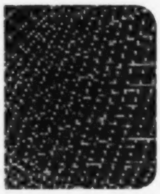
Where credit unions have Winnipeg and non-Winnipeg branches (Assiniboine, Cambrian and Steinbach), the location of the home branch is used for these statistics

Manitoba's Credit Unions

District structure effective January 1, 2008



[DISTRICT 1]
Steinbach CREDIT UNION [2 BRANCHES]

[DISTRICT 2]
Assiniboine CREDIT UNION [25]

[DISTRICT 3]
Cambrian CREDIT UNION [11]

[DISTRICT 4]
Belgian-Alliance CREDIT UNION [3]
Carpathia CREDIT UNION [3]
Casera CREDIT UNION [3]
Entegra CREDIT UNION [3]
Me-Dian CREDIT UNION [1]
North Winnipeg CREDIT UNION [2]
Winnipeg Police CREDIT UNION [1]

[DISTRICT 5]
Crosstown Civic CREDIT UNION [8]
Heartland CREDIT UNION [3]
South Interlake CREDIT UNION [9]

[DISTRICT 6]
Arborg CREDIT UNION [2]
Dauphin Plains CREDIT UNION [3]
Eriksdale CREDIT UNION [3]
Ethelbert CREDIT UNION [2]
Flin Flon CREDIT UNION [1]
Gimli CREDIT UNION [2]
Grandview CREDIT UNION [1]
Riverton CREDIT UNION [1]
Roblin CREDIT UNION [2]
Rorketon & District CREDIT UNION [1]
Ste. Rose CREDIT UNION [1]
Swan Valley CREDIT UNION [2]

[DISTRICT 7]
Amaranth CREDIT UNION [1]
Austin CREDIT UNION [4]
Beautiful Plains CREDIT UNION [2]
Crocus CREDIT UNION [2]
Cypress River CREDIT UNION [2]
Erickson CREDIT UNION [1]
Hartney CREDIT UNION [1]
Minnedosa CREDIT UNION [1]
Portage CREDIT UNION [3]
Sandy Lake CREDIT UNION [1]
Strathclair CREDIT UNION [4]
Tiger Hills CREDIT UNION [2]
Turtle Mountain CREDIT UNION [3]

[DISTRICT 8]
Agassiz CREDIT UNION [5]
Community CREDIT UNION [3]
Dufferin CREDIT UNION [1]
La Salle CREDIT UNION [1]
Lowe Farm CREDIT UNION [1]
Niverville CREDIT UNION [2]
Oak Bank CREDIT UNION [2]
Rosenort CREDIT UNION [1]
Sanford CREDIT UNION [2]
Starbuck CREDIT UNION [2]

[DISTRICT 9]
Altona CREDIT UNION [2]
Vanguard CREDIT UNION [13]
Virden CREDIT UNION [4]
Westoba CREDIT UNION [19]

CREDIT UNION CENTRAL OF MANITOBA [CUCM]

is the trade association for the province's 52 autonomous credit unions. As prescribed by *Manitoba's Credit Unions and Caisses Populaires Act*, CUCM manages liquidity reserves, monitors credit granting procedures and provides financial and other services to credit unions including banking, treasury, corporate governance, government relations, representation and advocacy, and legal services. As well, credit unions have access to payment and settlement systems, human resources, research, communications, marketing, planning, lending, product/service R&D and business consulting through CUCM. Manitoba credit unions jointly own CUCM and representatives from nine provincial districts sit on its board of directors. CUCM is financed through assessments and fee income derived through its operations.

The board and management of Credit Union Central of Manitoba (CUCM) have, over the years, continually considered, studied and acted on ways to improve the way CUCM operates. This has sometimes been done in response to developments elsewhere in the Canadian credit union system and sometimes for the benefit of the Manitoba system only. In either case, it is always done in the best interests of its member-owner credit unions.

These efforts continued in 2007, a particularly active year on the subject of the organization of the system at the regional level — as well as the national one, with the Centrals of B.C. and Ontario preparing for the merger approved by their members in 2007.

CUCM plans for changes and improvements to the provision and funding of its services by using a highly methodical approach. Scenario planning, introduced in 2005, uses facts, trends and rigorous analysis to develop as clear a picture as possible of what the system might look like in 2015 under three distinct scenarios then examines the impact each of them would have on credit unions, CUCM and the wider system. It remains a key component of CUCM's long-term planning process as it provides decision-makers with measurable indicators that allow us to better prepare for our members' future service needs.

CUCM's business model must, above all, provide the greatest probability of creating overall value to all Manitoba credit unions and facilitate their long-term growth

Part of that preparation includes investigating business models that may have the potential to better serve credit unions. To that end, CUCM joined the Centrals of Saskatchewan and Alberta to formally consider the merits of merging into a single Prairie Central.

First, though, we took a step back to develop guiding principles that would guide any current or future decisions related to the appropriate business model for the organization, and analyzed CUCM's ability to operate independently.

The 12 guiding principles that were developed are consistent with the values and principles of CUCM and Manitoba credit unions. They state that CUCM's business model must, above all, provide the greatest probability of creating overall value to all Manitoba credit unions and facilitate their long-term viability, growth, revenue and operating potential. The model must be fair to all partners in terms of the distribution of economic benefits, should a multijurisdictional entity be formed, and fair to credit unions in terms of representation and governance; there must also be strong consensus among credit unions in choosing the most appropriate model, it should embrace CUCM's core values and commitment to cooperative principles and not have a negative impact on the public's perception of credit unions.

The analysis performed in 2007 on CUCM's ability to operate independently until at least 2015 showed it would be possible as long as cooperation continues on a number of initiatives at various system levels and Manitoba credit unions continue to grow at or near current levels.

The Prairie Initiative process with Alberta and Saskatchewan began in mid-2006 and ended in the fourth quarter of 2007. Senior board and management representatives of the three Centrals shared their operating principles then developed a value proposition and strategies to address operational differences between the three entities. The value proposition outlined a growth strategy for Prairie credit unions, cost savings and efficiencies, a stronger voice with CUCC and key suppliers, the ability to provide services to credit unions of all sizes, as well as other benefits such as an enhanced liquidity pool and diversified loan portfolios. After much effort and analysis — all of which will prove worthwhile to CUCM's own planning processes — the Centrals concluded their discussions by recommending that, because the Prairie model as currently contemplated did not provide sufficient added value for credit unions, we would not continue on to the preparation of a business case.

These major structural discussions did not deter CUCM from continuing to work with its various system partners on major initiatives that had the potential to provide mutual benefit. The *Working Together* project brought national partners into the discussion of a new treasury management system. Although CUCM will be the only party moving forward with a new system in 2008, the process undertaken with our partners proved valuable to our planning and vendor selection processes. CUCM also remained very active on issues, like Chip Card and TECP, that require dedicated cooperation at the national levels of the co-operative and non-cooperative financial services industries.

Whether contemplating broad system changes or working with credit unions on special projects and the day-to-day tasks that help them better serve their members, Manitoba credit unions continued to benefit in 2007 from the sound judgement and solid leadership of the members of CUCM's board and senior management team and can look forward, as a result, to continued success in 2008.

RUSSELL FAST
Chairman, Board of Directors

(pictured left to right)

DISTRICT 1 **[CHAIR]**

Russell Fast

Executive Committee

DISTRICT 8 **[FIRST VICE-CHAIR]**

Alexander (Sandy) Wallace

Committees: Executive,
Level IV System Credit [VICE-CHAIR]

DISTRICT 9 **[SECOND VICE-CHAIR]**

Wayne McLeod

Executive Committee

DISTRICT 2

Al Morin

Audit/Conduct Review Committee

DISTRICT 3

Frank Pisa

Committees: Investment,
Level IV System Credit [CHAIR]

DISTRICT 4

Dave Abel

Committees: Investment [VICE-CHAIR],
Audit/Conduct Review [VICE-CHAIR],
Level IV System Credit

DISTRICT 5

Peter Enns

Audit/Conduct Review Committee

DISTRICT 6

Alex J. Eggie

Committees: Investment [CHAIR],
Audit/Conduct Review [CHAIR],
Resolutions & Bylaws [CHAIR]

DISTRICT 7

Reg Buss

Committees: Investment,
Level IV System Credit

Manitoba credit unions had another highly successful year in 2007.

Credit union assets grew by 12.6% to reach $12.9 billion, loans grew by 12.3% to $10.6 billion and deposits increased by 12.6% to reach $12 billion. The number of memberships increased by more than 20,000. Assets have tripled in the last decade and doubled since September 2001, when the province had 61 credit unions, 171 branches and 450,000 members. While there are fewer credit unions today as the result of mergers than there were six years ago, there are nine more branches and 110,000 more memberships. In spite of the rapid increase in assets over the last six year period, credit union equity has grown at an even faster pace, ending the year at $767.4 million, or 5.95 per cent as a percentage of assets.

Many Manitobans are choosing credit unions as their financial services provider for the first time. Concurrently, existing members are bringing more of their business to credit unions in favour of other banking options they may have in place. Forty-one per cent of Manitobans now belong to a credit union, of whom 81 per cent use a credit union as their primary financial institution. Fifty-one per cent of Small and Medium-Sized Enterprise (SME) owners belong to a credit union, with 94 per cent of those members identifying a credit union as their primary financial institution. These levels of market penetration, on both the consumer and commercial sides, far exceed those of credit unions' closest competitors.

More credit union members than bank customers express satisfaction with their financial institution and many more are likely to recommend it to friends and colleagues

Market research undertaken by Credit Union Central of Manitoba (CUCM) in January 2008 tells us why Manitobans continue to respond so favourably to the credit union alternative. More credit union members than bank customers express satisfaction with their financial institution and many more are likely to recommend it to friends and colleagues — one of the reasons for the strong growth credit unions have experienced over the past decade. When asked why, members cited low service charges, competitive rates, a broad range of product and service offerings, profit sharing and local ownership and control as primary reasons.

Market researchers typically ask respondents two questions about an item — its importance and the level of satisfaction with it. While not new, it is worth noting that respondents to CUCM's research attribute greater importance each year to trust, financial stability and ATM and account security. Respondents express high levels of satisfaction with their credit union's performance in these areas. Added to the fact that 2008 respondents put "the economy" first on their list of concerns for the future, these indicators underscore the enormous responsibility financial institutions bear and the onus that is upon them to provide the most secure products and services possible, as well as ensuring that personal information is kept confidential. One of the ways credit unions achieve this is by working collectively — by living the 6th International Co-operative Principle, Cooperation Among Co-operatives: the system-wide efforts leading up to the implementation of secure chip functionality on credit union debit and credit cards is an example of this principle in action.

In its capacity as their trade association, CUCM represents the interests of Manitoba credit unions with system partners, key suppliers, industry groups and government on a wide variety of issues — many of them, like chip implementation, related to questions of trust and security. CUCM's trade functions include corporate governance and democratic support, liquidity management, research, communications, ombudsman support, government relations and advocacy. While less tangible than its product and service offerings, carrying out these trade activities is equally as important in ensuring that CUCM fulfils its vision of providing leadership and ensuring the delivery of high value products and services that help credit unions achieve their vision.

International financial markets were rocked in 2007 by crises in the U.S. sub-prime mortgage and Asset-Backed Commercial Paper (ABCP) markets. While CUCM avoided direct exposure to non-bank-sponsored ABCP, repercussions in the markets impact CUCM and all Manitoba credit unions. An extensive section inside this year's report explains this complex situation and the impact that it, along with new accounting rules, is having on CUCM. Beyond the specifics, though, the ABCP situation has laid bare the reality that in today's financial services marketplace and global economy, we in Manitoba are far from immune to what occurs regionally, nationally or internationally.

CUCM supports credit unions by keeping abreast of situations like ABCP, as well as proposed changes to regulations or technology and, when possible, endeavours to anticipate and then meet their needs by participating with system and industry partners in the development and implementation of new technologies and standards that provide uniform, secure, dependable financial services solutions.

High levels of effective cooperation, informed discussion and mutual respect exist among Manitoba credit unions and in their relationship with CUCM. We see this at system meetings and at CUCM board meetings. These trusted relationships positively contribute to the strength of Manitoba's credit unions and their ability to provide top level service to their members.

I would like to thank all board members, and Chairman Russ Fast in particular, for their efforts over the past year in working through the many important issues and projects credit unions and CUCM faced together in 2007.

GARTH MANNESS
President and Chief Executive Officer

(pictured left to right)

PRESIDENT *and*
CHIEF EXECUTIVE OFFICER
Garth Manness

VICE-PRESIDENT BUSINESS SERVICES
Brian Peto

VICE-PRESIDENT OPERATIONS,
CHIEF FINANCIAL OFFICER *and* TREASURER
Mike Safiniuk

CORPORATE SECRETARY
Dale Ward

ASSISTANT CHIEF FINANCIAL OFFICER
Bob Lafond

DIRECTOR, LENDING SERVICES
Bernard C. Carling

DIRECTOR, RISK MANAGEMENT
Dina Long

DIVISION MANAGER,
BANKING & PAYMENT SERVICES
Wilson Griffiths

CREDIT UNION CENTRAL *of* MANITOBA

[VISION]

CUCM serves Manitoba's credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision.

[MISSION]

CREDIT UNION CENTRAL OF MANITOBA EXISTS TO

Help Manitoba's credit unions meet their business needs.
Assist Manitoba credit unions in providing services to their members.
Provide trade association services for Manitoba's credit unions.
Value/promote co-operative principles.

[CORPORATE VALUES]

RESPECT FOR PEOPLE

All individuals are highly valued and are treated equitably.

INTEGRITY

We are reliable in our word, honouring commitments and promises.

EXCELLENCE

In all we do, we are committed to the highest standards of performance, competence, and efficiency.

SERVICE

We serve Manitoba credit unions and their members.
We steward the assets and affairs of the corporation for the benefit of Manitoba credit unions.

[GUIDING PRINCIPLE]

Learn from the past, excel in the present and prepare for the future.

In the spirit of the sixth international Co-operative Principle — **Co-operation among Co-operatives** *— CUCM works with partners within the national credit union system on high-priority projects and other efforts designed to add value to member credit unions.*

As part of these national efforts, CUCM also frequently works with associations and other companies in the Canadian financial services industry on projects of common importance.

■ The Canadian Payments Association (CPA) announced a national **Truncation and Electronic Cheque Presentment (TECP)** project in 2003. This project involves all Canadian financial institutions and deals with the design, development and implementation of a secure system that will enable the electronic exchange of cheque images, thereby eliminating the need for the physical exchange of the original paper items. As one of the first organizations in the country to implement imaging, CUCM has been participating on committees with other CUCC and CPA members to develop standards and system designs and to plan the implementation across Canada. The CPA's schedule for TECP calls for further development and testing in 2008; the phased-in implementation is currently targeted for completion by the end of 2010.

Credit Union Central of BC, CUPS Payment Services and CUCM currently use a common core cheque imaging solution. These organizations worked together to develop the TECP vendor requirements and shared the required application development costs.

■ In early 2007, following the conclusion of the preliminary work of a system-wide **Chip Strategy Task Force** that included representatives of the Manitoba credit union system, the Co-operative EFT Development Association (CEDA) was established to govern credit union participation in electronic payments networks and card-accessed delivery channels. CEDA's first task was to conduct a comprehensive review of EMV chip-ready switching services available to Canadian credit unions. (EMV is the international technology standard developed by Europay, MasterCard and Visa to ensure world-wide functionality between chip cards and devices.) CEDA is made up of representatives of the two switching nodes operating for credit unions in Canada, one of which is the **National Node Coordination Committee** (NNCC, which primarily represents Saskatchewan, Alberta and Manitoba credit unions and their Centrals).

The NNCC determined that a proposal from Everlink provides the best value to credit unions

Following CEDA's issuance of a Request for Information in May 2007, followed by a formal Request for Proposal, the NNCC determined that a proposal from Everlink provides the best value to credit unions. Moving forward with Everlink will provide credit unions currently utilizing the CUCC Node with the best opportunity to continue to leverage their investment and business relationship with Everlink, avoid the potential of a conversion process for switching services and move forward quickly on chip migration.

The NNCC is looking to establish a renewed contract and business relationship with Everlink that will be available to current CUCC Node users and potential new users among Canadian credit unions. The NNCC's objective is for credit unions to have sufficient information to provide a commitment of their transaction volumes by mid-April 2008.

■ The **National Liquidity Funding Agreement (NFLA)** was developed in 1998 to create a national liquidity pool to deal with situations where a provincial liquidity crisis could become a national concern. The agreement — which provides comfort to the Office of the Superintendent of Financial Institutions (OSFI), the CPA and the Bank of Canada — facilitates the movement of liquidity to a provincial system experiencing a shortfall. The global credit and liquidity crisis caused by U.S. sub-prime mortgages and asset-backed commercial paper drew the system's attention to the NFLA in 2007; however, this source of liquidity was not required — nor has it been since inception.

Governance, Legislation & Bylaws

At the end of 2006 there were 57 credit unions in Manitoba. A year later, there were 54 — and 52 as of January 1, 2008. As a result of mergers, the **Democratic Control Review Committee** made a number of changes to the composition of the nine districts represented on CUCM's Board of Directors. As the number of mergers between Manitoba credit unions has been increasing, particularly inter-district ones, the committee asked management to research governance models of organizations similar to CUCM in order to determine whether more flexible structures exist that could be implemented while still ensuring that representation within the Manitoba system remains effective into the future. Recommendations on this effort will likely come in 2008.

CUCM is researching governance models that would be more flexible yet maintain effective credit union representation into the future

■ In 2007, management reviewed and proposed amendments to a number of **CUCM bylaws**. Changes of a material nature to credit unions dealt with share capital, statutory liquidity and excess liquidity. On share capital, the required notice for interim capital calls would be reduced to adhere to regulatory requirements during periods of unexpected increases in liquidity deposits. On statutory liquidity, credit unions would be permitted to syndicate member deposits, with the deposit base used to calculate statutory liquidity being adjusted to include any deposits acquired through syndication (subject to regulatory approval). The recommended changes to excess liquidity bylaws would give credit unions more flexibility in investing excess liquidity deposits.

■ CUCM resources developed policy statements and supporting procedures to comply with requirements set out by OSFI to assess the background and qualifications of individuals serving as directors and members of CUCM's senior management team. These **Responsible Persons Policy & Procedures** were approved by the board and came into effect in late 2007.

■ Flowing from the **Law Review Committee** process, a package of regulation amendments was approved by the provincial government and came into effect October 15, 2007. Amendments included the removal of the requirement to hold membership meetings to approve new branches or invest in eligible corporations, as well as the requirement to provide four months' notice of branch closures. The committee will continue to pursue a number of other Act and Regulation changes in 2008.

■ CUCM continued to participate on the national **Legislative Affairs Committee**, which monitors federal legislation, acts on items that could affect credit unions and lobbies for changes identified by the national system. In 2007, work at the national level included meeting with lawmakers on a wide variety of topics related to the financial services industry in general and credit unions in particular. Significant among them were input to the *Proceeds of Crime (Money Laundering) and Anti-Terrorist Financing Act*, the *Personal Information and Electronic Documents Act* and Bill C-12: *An Act to amend the Bankruptcy and Insolvency Act, the Companies' Creditors Arrangements Act, the Wage Earner Protection Act and Chapter 47 of the Statutes of Canada, 2005*. The committee also continued to lobby for changes to the Competition Bureau's user fees structure, which currently applies a single fee to review all mergers of financial institutions in excess of $400 million in size regardless of their scale or complexity.

■ Provincially in 2007, representatives of CUCM's board and management met with the finance minister (who is also the minister responsible for *The Credit Unions and Caisses Populaires Act*) and opposition leaders and caucuses. The meetings provided opportunities to report on the state of Manitoba credit unions and highlight legislative and other issues of importance to the system.

Improving CUCM for the Benefit of Manitoba Credit Unions

In its ongoing efforts to continually improve CUCM, management undertook a number of initiatives in 2007 to enhance services for credit unions.

■ The **Online Return System** project was undertaken to replace the cheque return application CUCM developed in 2003. The project was necessitated by the extensive changes required as a result of TECP. In addition to meeting the TECP standards for cheque returns, the new system will provide a single interface for credit unions to enter AFT returns and introduce other value-added services to help them perform back office payments functions. Banking & Payment Services developed the system specifications in 2007 with input from credit union representatives.

For the past 20 years or so, CUCM has had an arrangement with a chartered bank for Canadian **money order services**. In an effort to contain costs and improve service in regards to tracing lost or missing instruments, Banking & Payment Services brought this service in house in the fall of 2007. Credit unions now have their own Canadian money order instrument. As these money orders are now drawn on an internal account held at CUCM, all paid items will be imaged and available for quick viewing and printing. The second phase of this project will see credit unions being able to enter and send their remittances to CUCM electronically.

Credit unions now have their own Canadian money order instrument

As part of ongoing system and financial services industry efforts to identify criminal and fraudulent activity, Banking & Payment Services and the Bank of Canada jointly offered **counterfeit cash seminars** to credit unions in Winnipeg and Brandon in 2007.

■ In 2007, CUCM implemented a number of changes and enhancements to the **System Credit Committee (SCC)** process. The changes, identified in 2006, included providing SCC Levels I, II and III with higher limits and expanded authority to deal with more sophisticated credit requests, providing credit unions with faster service and ensuring that the integrity of SCC Level IV remains at a high level and is within the spirit of the Basel II Accord. Other recommended changes accepted by the CUCM board and the Credit Union Deposit Guarantee Corporation (CUDGC) were that a credit not approved by SCC Level IV follow an appeal process that occurs at a different date from when the credit was originally reviewed and that, where necessary, training be provided to SCC Level IV representatives to enhance their level of expertise.

Cost of Credit Disclosure legislation contained in changes to *The Consumer Protection Act* came into effect April 1, 2007. Despite a very tight implementation deadline, the Manuals and System Credit departments ensured that Manitoba's credit unions had the necessary tools to be in compliance. A new cost of credit disclosure page on the E-Manuals website was built to house the guidelines, disclosure forms and links to send questions to the Manuals Centre. System Credit, CUCM's solicitor and the Manuals Centre researched and responded to more than 70 credit union inquiries between February and April and posted the questions and answers to the site for the benefit of all credit unions.

■ Building on work completed in 2006 with Manitoba credit unions on current and future skill requirements, CUCM held discussions with credit unions to further explore opportunities identified in the **Credit Union Human Resource Skills Assessment** — opportunities that continue to be considered and reevaluated in the context of other system issues. A comprehensive salary survey was also conducted on behalf of the system in 2007. Undertaken every two years, the **Western Canadian Credit Union Salary Survey** provides participating credit unions with information on executive and non-executive compensation, benefits and working conditions. Survey participants included credit unions and banks in B.C., Alberta, Saskatchewan and Manitoba. Credit unions also participated in a **Director Remuneration Survey**.

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■ In 2007, **Printing & Supply Customer Service Improvements** included the addition of an online shopping cart to www.printingandsupply.ca. The site, which is available to anyone on the Internet but is intended primarily for Manitoba credit unions, allows customers to view large, full-colour images of all Printing & Supply products and order them online. By the end of the year, credit unions had placed 200 online orders. Other steps the department took in 2007 to enhance customer service included removing the month-end no orders period, rescheduling workloads to widen the next-day delivery window and furthering sales of the popular Made-in-Manitoba wall calendar. Printing & Supply also held discussions throughout the year with the supply departments of SaskCentral and Alberta Central about combining the three organizations' purchasing power.

Efforts to continually improve CUCM were also directed toward the company's management processes, administration and human resources.

■ In 2006, CUCM's board expressed interest in establishing a process whereby CUCM's key performance indicators could be measured against those of similar organizations. Throughout 2007, CUCM's executive contacted peer organizations and supplemented their responses with data collected from similar organizations in the industry, as well as intelligence gathered by CUCM departments. A report **benchmarking CUCM** with its peers across a number of relevant business indicators was delivered to the board in February 2007 and will continue to be delivered annually.

■ In 2005, the Canadian Institute of Chartered Accountants (CICA) announced that Canadian reporting standards will change to **International Financial Reporting Standards (IFRS)** effective January 1, 2011. However, because this conversion date requires comparative financial statements, CUCM needs to be ready for the change in financial reporting standards by January 1, 2010.

CUCM participated in discussions with the National Controllers Group which, after beginning the initial impact analysis, recommended that Credit Union Central of Canada (CUCC) organize a collaborative approach to the changing standards in the areas of education, training and analysis of the impact on credit unions. CUCC will take the lead on a detailed project for 2008, and beyond, related to the implementation of IFRS. In addition to participating at the national level, CUCM's Finance division started knowledge building and training around the new standards in order to assess their impact on CUCM.

The National Controllers Group recommended that CUCC organize a collaborative approach to addressing the impact on credit unions of new IRFS standards.

As part of its five-year convergence plan with IFRS, in January 2005 CICA issued a number of rule changes, which CUCM applied to its operations for the fiscal year beginning January 1, 2007: CICA 3855, *Financial Instruments — Recognition and Measurement*; CICA 3865, *Hedges*; and CICA 1530, *Comprehensive Income*. An internal project, "ELMO", was initiated to modify CUCM's internal systems to meet the new requirements.

The new rules resulted in CUCM making a number of changes to its standards, with liquidity pool assets being accounted for on a fair value basis (excluding investments matched to equity, which are accounted for on an amortized cost basis), intermediation pool assets being accounted for on an amortized cost or historical cost basis and members' deposits being accounted for on a fair value basis.

Modifying CUCM's accounting system to be compliant was a considerable and labour-intensive effort. Project ELMO turned out to have been under-scoped — as none could have fully appreciated the amount of effort required to interpret the requirements and ensure compliance — but the requirements were successfully met nonetheless.

CUCM was also busy in 2007 preparing for the potential impact of known unknowns — disasters and epidemics.

■ Public health experts suggest that, during a severe pandemic, absentee rates could reach 50 per cent. In April 2006, OSFI requested that all Canadian financial institutions create **pandemic preparedness plans**.

CUCM established a Pandemic Preparedness Planning Committee and gave it the task of ensuring that CUCM could continue to provide essential services during a pandemic. Simultaneously, CUCM started developing business continuity plans in the event that a fire or other disaster prevented entry to CUCM's building at 317 Donald Street for a protracted period.

As the two are clearly linked, development of business continuity and disaster recovery plans proceeded in tandem for the company as a whole and for each division and department. All areas of the organization identified and developed recovery procedures for essential services they provide to credit unions. Among the many tasks associated with the project were the creation and updating of policies to address the prospect of high absenteeism, the encouragement of cross-training in key functional areas, communications planning, financial impact modeling, and providing information to credit unions to assist them with their own pandemic and business continuity planning.

CUCM updated policies to address the prospect of high absenteeism, encouraged cross-training in key functional areas and provided pandemic planning information to credit unions.

■ In 2006, a project was initiated to review the compliance of the **Celero/CUCM business relationship** with OSFI Guideline B-10, *Outsourcing of Business Activities, Functions and Processes*, which sets out OSFI's expectations for federally regulated financial institutions that outsource any business activities deemed material to their organization. After confirming the applicability of the guideline to the CUCM-Celero relationship, CUCM amended its outsourcing policy in December 2006 and then embarked on the development of a service agreement and related service standards with Celero, as per OSFI's requirements. A service level contract is expected to be completed with Celero in early 2008.

■ In its continuing efforts to provide staff with information and tools designed to enhance their experience working at CUCM, the company conducted one-day **Performance Management** workshops that focused on the concepts of collaboration and working together to reach win-win agreements, and provided employees with tools and techniques for developing good performance objectives.

■ In 2007, CUCM implemented a **Work-Life Effectiveness** project aimed at identifying if and where work-life issues exist in the organization. Following an employee survey and external research carried out in 2007, Human Resources will conduct an in-depth review of CUCM's benefit offerings, raise awareness of CUCM's current work-life programs — such as flex time, flex place and flex hours, by implementing strategies to encourage their use — and initiate an annual wellness and health awareness campaign.

Together with its partners and system-owned suppliers, CUCM is part of an integrated financial product and services network dedicated to the success of Manitoba credit unions.

Celero Solutions

*A key priority for Celero Solutions — a joint I/T venture between the three Prairie Centrals, Concentra Financial and CUETS * — is Project Meta, which will see the migration of 120 Prairie credit unions to the new eroWORKS Retail Banking System by the end of 2010. In 2007, Celero successfully implemented eroWORKS at an Alberta pilot credit union. The company also launched a new eroWORKS website for clients and completed upgrades to data centres to host the new banking system.*

* CUETS was purchased by MBNA Canada in 2007 and its share in Celero was split between the four remaining partners.

Celero signed an exclusive seven-year value-added reseller agreement with CUCBC to provide MemberDirect *Internet banking solutions to credit unions under the eroSERVE label and, in partnership with Sonoma Technical Support Services, launched eroSERVE Member Support to provide customer assistance to members. Celero also retained a significant commitment from the new owners of CUETS Financial Ltd., MBNA Canada Bank.*

In completing its annual 5970 Audit, Celero received a "no qualifications" report from its auditor, which means Celero maintains internal controls that meet or exceed industry standards and takes appropriate measures to mitigate risks for its clients.

Finally, Celero continued to run day-to-day operations that its customers rely on for their business needs by: serving over one million banking system memberships; processing over 475 million transactions through its banking systems and achieving uptime reliability of 99.9931%; processing over 146 million point-of-sale and ATM transactions through Everlink Payment Services; completing 455 information technology development and integration projects; and filling over 48,000 requests through its service centres.

Everlink Services

Everlink Payment Services Inc. was formed in 2003 as a partnership between Metavante Corporation and Celero Solutions. Everlink provides switching services to 90 percent of the Canadian credit union system and processes in excess of 500 million issuer and acquirer transactions annually. Everlink operates three direct connect nodes to Interac and is the central switch provider for the Canadian Exchange Network, the AccuLink Network and Acxsys Cross Border Debit Services. Through numerous connections to both debit and credit payment networks, Everlink connects partner organizations to hundreds of thousands of ATM and point-of-sale devices worldwide.

Mark Ripplinger replaced Mike Feliciano as President of the company in October.

Within the Canadian credit union system, in addition to providing switching services, in 2007 Everlink responded to CEDA's switching RFI and RFP.

MANITOBA CREDIT UNIONS

Order of MERIT

The Manitoba Credit Unions Order of Merit Award

recognizes individuals who — whether as employees or elected officials — have demonstrated a significant commitment to Manitoba credit unions and the communities in which they operate. Each year, up to three individuals are selected to receive the award, based on their exemplary service to Manitoba credit unions, the leadership they've shown in the preservation and extension of the philosophy of people helping people, and their commitment to the Seven International Co-operative Principles.

In addition to the commemorative plaque they receive as part of the award, recipients or their representatives also have the honour of selecting a Manitoba secondary or post-secondary educational institution and faculty or program to receive a bursary to award to a student based on achievement, need or other criteria.

In 2005, the Credit Union Managers' Association of Manitoba matched CUCM's $500, bringing the total value of the bursary to $1,000 per student.

Also in that year, the Order of Merit selection committee created a special Pioneer category to allow for the recognition of nominees for whom sufficient records of their lifelong involvement in the wider system of credit unions did not exist, even though the historical importance of their work was evident.

Evidence of the contributions of this year's recipient is found in abundance.

John Gottfried

John Gottfried was nominated for the Order of Merit by the board of Casera Credit Union. Although he has served on Casera's board for the past six years, John is better known to the system as the long-time Member Services Division Manager, Corporate Secretary and twice-interim CEO of Credit Union Central of Manitoba (CUCM) where he worked for 23 years following nine years at Cooperators Credit Union. Over the course of his career, John served on committees at the provincial and national levels including the Credit Granters Association of Winnipeg, CUCM's System Credit Level III and Orderly Development committees, the Canadian Co-operative Association's Projects Review Committee and CUCC's Interprovincial Services and Products Development Committee. He also served on the Board of Governors of the Credit Union Institute of Canada and was CUCM's liaison with the Credit Union Managers' Association of Manitoba.

Outside the system, John gave and continues to give of his time to organizations in Winnipeg and his home community of Transcona. He sat on the boards of the Better Business Bureau and the Catholic Foundation of Winnipeg and remains active with his local Knights of Columbus as a founding member of the council. His ongoing work with L'Arche, an organization founded in France by a Canadian, Jean Vanier, has been a highlight of his volunteer life. John describes as "incredible" the way L'Arche residents respond to the live-in care and encouragement they receive.

Serving on the refugee committee of his church became a 40-hour-a-week job for John following his retirement. He dealt with the legal and administrative challenges of Canada's immigration process in securing refugee status for a mother and seven children from Sierra Leone, worked to find them housing, secured medical cards, food and clothing, and set them up in jobs and programs that helped them pursue educational opportunities. They are, variously, in school or gainfully employed in their new lives in Canada.

He also served many years with Oxford Heights Community Centre, the Transcona Nationals Football Club and, with a friend and fellow fan, brought junior baseball back to life in Transcona in the early 1990s. He continues to volunteer at the Transcona Food Bank.

In his volunteer and community service work, John says he likes to serve for a relatively short time then move on to something new. Transcona can expect to see John Gottfried take on new challenges in the years to come.

In the spirit of the path followed by his children, John has asked that the $1,000 bursary attached to his award go to a student in Collège Pierre Elliot Trudeau's band program who has been involved in volunteerism in their community and plans to pursue a post-secondary education.

CUCM's transition to Canadian Institute of Chartered Accountants (CICA) rules

Since January 1, 2007, CUCM's financial operating results have been based on fair value reporting of financial instruments, as required by the Canadian Institute of Chartered Accountants (CICA). The transition to fair value reporting necessitated a review of and changes, where required, to CUCM's financial operating principles. The review resulted in: changes to the pricing of liquidity deposits; confirmation that excess financial margin rebates and dividends, exclusive of fair value adjustments, would continue; identification of changes needed to modify the process for CUCM's capitalization; and reaffirmation that CUCM's retained earnings target should continue, inclusive of fair value adjustments. Note 1 to the appended financial statements includes the significant accounting policies which CUCM adopted for 2007 and the transitional impact of the new rules on retained earnings. In addition to those which are required to be designated as held for trading, CUCM elected to designate the majority of its financial instruments as held for trading. Under this designation, the impact of fair value flows through CUCM's Statement of Operations — Unrealized gains (losses) on instruments held for trading — and, ultimately, retained earnings.

Global Credit and Liquidity Crisis

With increasing frequency and volume in recent years, loan originators have used asset securitization to generate additional sources of income by funding loans far in excess of their customer deposit base. Any asset that has a future cash flow can be securitized, such as receivables from auto leases, credit cards and mortgages. Securitized assets are sold through investment vehicles, the most common of which is asset-backed commercial paper (ABCP), which is typically issued for 90-day terms. The increased popularity of asset securitization created a highly competitive market for loans and caused consumer and commercial financing rates to fall and interest margins to shrink.

As the decline in U.S. house values became evident over the summer of 2007, concerns mounted about the credit quality of sub-prime mortgages. Institutional investors stopped rolling their ABCP investments or buying new issues. Given that ABCP depends on steady buying and selling, or churn, the market seized up. Global financial institutions began announcing massive losses from their exposure to U.S. sub-prime mortgages, which led to a liquidity and credit crisis.

This crisis spread to Canada in August, when investors became concerned that their third-party ABCP included some U.S. sub-prime mortgages. Even though the exposure was said to be minimal and limited to a small group of issuers, many investors stopped buying any ABCP, which caused a funding shortfall. Foreign banks refused to honour

their commitments to provide emergency liquidity since they believed the contractual conditions required to initiate the funding had not been met. As a result, the third-party notes were not repaid on maturity. In Canada, work began to restructure these securities into longer-term investments through the Montreal Accord.

As for bank-sponsored ABCP, domestic banks continued to honour their liquidity commitments and these notes continued to pay out at maturity. Canadian asset-backed securities remain of very high quality due to conservative lending practices and Canada's strong economy — house prices continue to rise, employment is growing and consumers are paying their bills. Even so, many investors have shied away from all ABCP.

This worldwide crisis in investor confidence led central banks to lower interest rates, inject liquidity and otherwise try to restore calm to the markets. Toward the end of 2007, the U.S. government started working with mortgage lenders and investors to try to keep consumers in their homes in order to reduce the glut of houses on the market and minimize further losses to mortgage lenders.

The fact that many investors deserted ABCP despite their high credit quality had a profound impact on banks, as the emergency liquidity lines the banks extended to their sponsored programs amounted to many billions of dollars. Banks that had intended to use those funds to securitize their own new loans now needed to fund new lending through other means. And other loan originators, also unable to securitize, began to borrow from banks, further adding to the scarcity of credit.

These many factors forced banks to find alternatives to asset securitization, with many results. Reflecting the huge need for funds, deposit rates rose and banks and other financial institutions issued large amounts of bond debt in a short period of time. Simultaneously, many investors fled to risk-free Government of Canada bonds. The timing could not have been worse, as it resulted in higher mortgage and loan rates and, in some cases, a re-pricing of credit risk. Banks now see cash as precious and are much more selective in how they use it.

The Manitoba credit union system's liquidity bylaws prohibit direct investment by credit unions in ABCP. At the same time, CUCM has always adhered to a very conservative investment policy that emphasizes the importance of high credit quality and liquidity. These principles drive our choice of investments and have always outweighed the desire for higher returns. Accordingly, CUCM did not invest in U.S. mortgage-backed securities or third-party ABCP. CUCM does invest in bank-sponsored ABCP and continues to do so. CUCM's portfolio continues to be of high credit quality and the company has taken advantage of opportunities in the market to lock in on higher yielding investments, which will support higher returns to credit unions on both liquidity deposits and share capital.

Impact of Cica Rules and Global Credit and Liquidity Crisis on Cucm

The combination of the implementation of the new CICA rules and the global credit and liquidity crisis had a negative impact on CUCM's overall financial margin for 2007; included in CUCM's Statement of Operations are Unrealized gains (losses) on instruments held for trading aggregating $9.7 million. This negative impact is not due to a decline in the credit worthiness of any of CUCM's investments.

At the same time, credit union deposit returns have been positively impacted.

The Positive Impact

CUCM has historically distributed to credit unions financial margin that is earned in excess of rates paid to holders of short term deposits. CUCM's transition to fair value accounting included a decision to keep distributing excess financial margin prior to any positive or negative impact resulting from the fair valuation of financial instruments. The market disruption of 2007 presented higher yielding investment opportunities (primarily asset swaps and bank sponsored asset backed securities) that resulted in the distribution of higher than expected excess financial margin for 2007. These higher returns will continue for succeeding years, until the investments mature. (This opportunity is similar to that which existed during the market disruptions occurring at the time of 9/11, Enron and Worldcom, which contributed significantly to short term liquidity returns over the succeeding years, 2001 to 2007.) For 2007, CUCM distributed a financial margin rebate of $2.4 million.

The Negative Impacts

Adjustments arising from the fair valuation of financial instruments are driven by many factors including: imperfect future cash flows of matched financial instruments and of asset swaps (bond value at maturity versus nominal value for the interest rate swap derivative); differing valuation tools for investments and deposits; and different valuation bases for investments (market driven) and deposits (internally based cash flow discounting).

Over the period January to July 2007, these factors resulted in fair value adjustments that fluctuated monthly within an acceptable positive-to-negative band and aggregated less than $100,000.

Since August and the onset of the liquidity/credit crisis, CUCM experienced negative fair value adjustments of significant and varying amounts. These losses were driven primarily by a sharp repricing of credit risk for all non-government guaranteed instruments (bank debt, asset-backed securities and other corporate debt) and followed a pattern of worsening when the markets were most concerned about liquidity/credit risks. Towards the end of the year, the heightened concern that the U.S. economy was headed toward recession accentuated the losses. The losses do not reflect a decline in the credit quality of CUCM's investment portfolio; to date, none of CUCM's investments has been downgraded by DBRS Limited.

As noted earlier, the repricing of credit risk presented CUCM with the opportunity to book investments with above normal market returns: specifically, asset swaps and bank-sponsored ABCP. While these opportunities were seized as they arose, investment returns continued to increase with the passage of time for both asset swaps and ABCP. Concurrently, bankers' acceptance rates, which are paid on member deposits, did not move in sync with investment rates.

When all financial instruments were valued, the fair value loss on investments was not offset by the gain on member deposits. This was compounded by the fact that bid/offer spreads widened — more so for investments than for deposits, thus accentuating the fair value losses. The fair value losses rose steadily over the second half of the year, driven by increasing concerns over the shortage of liquidity, credit risk, and the possibility of a U.S. recession.

Since fair valuation neither adds nor detracts from the economic value of investments or debt instruments that are held to their maturity date, the unrealized gains (losses) incurred during the year will reverse over time as markets return to normal and the underlying instruments mature.

As part of its risk management program, all investments held by CUCM are with investees whose minimum credit rating must equal or exceed "R-1 Low" (for commercial paper) and "A" (for bonds), as published by DBRS Limited, or equivalent ratings by Standard & Poor's Corporation or Moody's Corporation. Virtually all large institutional investors subscribe to at least one of these rating services. By policy, CUCM's non-chartered bank investments with a remaining term to maturity beyond 13 months must be rated "AA" or better. The minimum rating for major chartered banks is "A". The "AA" limitation provides an added buffer in the event of an economic or sectoral downturn that could result in credit deterioration of the non-bank investees. Note 2 in the appended financial statements summarizes CUCM's investments by credit rating and period of maturity.

Additionally, Note 13 provides supplementary information respecting CUCM's risk management program and, specifically, interest rate risk management: CUCM follows rigid interest rate repricing parameters.

Since the unrealized gains (losses) incurred during the year have negatively impacted CUCM's retained earnings, adherence to regulatory capital is being monitored closely and capital calls will occur as required to maintain compliance. Excluding the unrealized gains (losses) incurred during the year, CUCM's operating results produced positive cash flow results, which supported the payment of dividends to holders of Class I and II shares.

CREDIT UNION CENTRAL *of* MANITOBA

MANAGEMENT REPORT

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
President and Chief Executive Officer

MIKE SAFINIUK
Treasurer

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
Chartered Accountants
One Lombard Place, Suite 2300
Winnipeg, Manitoba
Canada R3B 0X6
Telephone +1 (204) 926 2400
Facsimile +1 (204) 944 1020

February 21, 2008

Auditors' Report

To the Members of
Credit Union Central of Manitoba Limited

We have audited the consolidated balance sheet of **Credit Union Central of Manitoba Limited** as at December 31, 2007 and the consolidated statements of operations and reserves (deficiency) and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Winnipeg, Canada

Consolidated Balance Sheet as at December 31, 2007

in thousands of dollars	2007	2006
Assets		
Liquidity pool [note 2]	1,774,504	1,633,897
Intermediation pool [note 3]	123,205	94,758
Service related [note 4]	25,829	8,984
	1,923,538	1,737,639
Liabilities		
Members' deposits	1,814,408	1,634,458
Accounts payable	7,476	6,817
	1,821,884	1,641,275
Members' Equity		
Share capital [note 5]	103,228	91,413
Reserves (Deficiency)	(1,574)	4,951
	101,654	96,364
	1,923,538	1,737,639

Approved by the Board of Directors

DIRECTOR

DIRECTOR

Consolidated Statement of Operations and Reserves (Deficiency) for the year ended December 31, 2007

in thousands of dollars	2007	2006
Financial revenue		
Liquidity pool	81,382	58,691
Intermediation pool	4,813	7,675
	86,195	66,366
Cost of funds	79,493	61,645
	6,702	4,721
Unrealized gains (losses) on instruments held for trading [note 1]	(9,723)	—
Financial margin	(3,021)	4,721
Share of Celero's income	249	1,719
Net operating recovery [note 7]	687	115
	936	1,834
Income before credit union patronage rebates	(2,085)	6,555
Credit union patronage rebates		
Financial margin rebate	2,378	539
Distribution of Celero's income	249	1,719
	2,627	2,258
Income before income taxes	(4,712)	4,297
Provision for (recovery of) income taxes [note 8]	(487)	680
Net income (loss) for the year	(4,225)	3,617
Reserves — Beginning of year	4,951	4,128
Fair Value Transition Adjustment [note 1]	1,173	—
	1,899	7,745
Dividends — net of related income tax savings [note 8]	(3,473)	(2,794)
Reserves (Deficiency) — End of year	(1,574)	4,951

Consolidated Statement of Cash flows for the year ended December 31, 2007

in thousands of dollars	2007	2006
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	(4,225)	3,617
Items not affecting cash		
Unrealized gains (losses) on instruments held for trading	9,723	—
Depreciation and amortization	1,673	1,340
Recovery of future income taxes	(1,272)	(99)
	5,899	4,858
Net change in receivables, prepaids, inventories and accounts payable	(743)	1,304
	5,156	6,162
Investing activities		
Decrease (Increase) in liquidity pool securities maturing after three months	(287,036)	68,959
Decrease (Increase) in intermediation pool	(28,652)	109,462
Acquisition of capital assets — net of disposals	(16,096)	(769)
	(331,784)	177,652
Financing activities		
Increase in members' deposits	190,728	238,489
Increase (Decrease) in share capital [note 5]	11,815	12,085
Dividends — net of taxes	(3,473)	(2,794)
	199,070	247,780
Increase (Decrease) in cash and cash equivalents	(127,558)	431,594
Cash and cash equivalents — Beginning of year	435,306	3,712
Cash and cash equivalents — End of year	307,748	435,306
Cash and cash equivalents consist of		
Cash (Overdraft)	(40,401)	16,027
Liquidity pool securities maturing within three months	348,149	419,279
	307,748	435,306
Liquidity pool consists of		
Cash and cash equivalents, as above	307,748	435,306
Liquidity pool securities maturing after three months	1,466,756	1,198,591
	1,774,504	1,633,897

[1] Significant accounting policies

BASIS OF PRESENTATION

The consolidated financial statements of Credit Union Central of Manitoba (the "Organization") have been prepared in accordance with the Co-operative Credit Associations Act, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Office of the Superintendent of Financial Institutions Canada ("OSFI"). No such specifications have been made by OSFI, and the significant accounting policies used in the preparation of the financial statements are summarized below.

BASIS OF CONSOLIDATION

These consolidated financial statements include the accounts of Credit Union Central of Manitoba and its wholly owned subsidiary 317 Donald Inc. after the elimination of inter company accounts and transactions.

NEW ACCOUNTING STANDARDS ADOPTED DURING FISCAL 2007 — RECOGNITION AND MEASUREMENT

The summary of accounting policies used to prepare the consolidated financial statements is presented below. These accounting policies have been applied on a consistent basis, except for the adoption of the Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 — *Financial Instruments - Recognition and Measurement*; CICA 3861 — *Financial Instruments - Disclosure and Presentation*; CICA 3865 — *Hedges*; and CICA 1530 — *Comprehensive Income*. These standards for recognizing and measuring financial assets and financial liabilities including financial derivatives were effective January 1, 2007. The Organization adopted the standards retroactively with prospective presentation; accordingly, comparative financial statements were not restated in accordance with the transitional provisions. Financial assets and financial liabilities, including derivatives, are recognized when the Organization becomes party to the contractual provisions of the financial instrument. All financial instruments are required to be measured at fair value on initial recognition except for certain related party transactions. Measurement in subsequent periods depends on whether the financial instrument has been classified as held-for-trading, held-to-maturity, available for sale, loans and receivables or other financial liabilities. The effect of the adoption of the standards is disclosed below.

in thousands of dollars	January 1, 2007 Carrying Value	December 31, 2006 Carrying Value	Transition Adjustment
Liquidity Pool			
Investments designated as held for trading	1,565,916	1,570,841	(4,925)
Investments designated as held to maturity	64,037	64,037	—
Non-specific provision for doubtful securities	—	(1,000)	1,000
Intermediation Pool			
Investments designated as available for sale	94,423	94,423	—
Investments designated as loans and receivables	130	335	(205)
Members' Deposits			
designated as held for trading	(1,628,903)	(1,634,458)	5,555
			1,425
Tax effect — 17.6%			(252)
Transition adjustment			1,173

FINANCIAL INSTRUMENTS DESIGNATED AS HELD FOR TRADING

Financial instruments, other than those required to be designated as held for trading, may be designated on a voluntary and irrevocable basis as held for trading provided that such designation.

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the related gains and losses on different bases; and
- allows for reliable measurement of the fair value of the financial instruments designated as held-for-trading.

Other than those required to be designated as held for trading, the Organization has met the above requirements and has elected to designate certain of its financial instruments as held for trading as detailed below.

a) Liquidity pool

Investments designated as Held for Trading

These investments are recorded at their fair value initially using the settlement date for recognizing transactions and thereafter based on a quoted active market. Interest income earned, amortization of premiums and discounts, dividends received as well as realized gains and losses are included in Financial revenue — Liquidity pool using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized in the consolidated statement of operations as Unrealized gains (losses) on instruments held for trading.

Investments designated as Held to Maturity

These investments, which are matched to equity, are recorded at their amortized cost using the settlement date for recognizing transactions. Other than temporary declines in market value are recognized as they occur in the determination of income. Interest income earned, amortization of premiums and discounts as well as dividends received are included in Financial revenue — Liquidity pool using the accrual basis of accounting. Accrued interest receivable is included with the corresponding principal balance.

Cash and cash equivalents

Cash and cash equivalents consists of cash, deposits with other financial institutions and investments maturing within three months.

Transaction costs

All transaction costs are expensed as incurred.

b) Derivative financial instruments

Interest rate swap agreements

The Organization enters into interest rate swap agreements in order to manage its exposure to changes in interest rates.

Additionally, the Organization, in its role as a financial intermediary, enters into interest rate swap agreements and index-linked swap agreements with its member credit unions. Concurrently, the organization enters into a counter agreement with a third party financial institution.

These agreements are recorded at their fair value based on a discounted cash flow methodology using observable market inputs with changes in those fair values recognized as Unrealized gains (losses) on instruments held for trading. Interest income on the receiving leg of the swap is included in Financial revenue — Liquidity pool and conversely interest expense on the paying leg of the swap is included in Cost of funds using the accrual basis of accounting.

Foreign exchange forward rate agreements

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates. The Organization, in its role as a financial intermediary, also enters into foreign exchange forward rate agreements with its member credit unions.

Foreign exchange forward agreements are recorded at their fair value based on a discounted cash flow methodology with changes in those fair values included in Financial revenue — Liquidity pool.

Embedded derivatives

A derivative instrument may be embedded in another financial instrument (the host instrument). Embedded derivatives are treated as separate derivative financial instruments when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivatives are the same as those of a stand-alone derivative financial instrument, and the combined contract is not designated or classified as held for trading. Embedded derivatives are accounted for at fair value on the balance sheet and changes in fair value are recorded in statement of operations. The Organization elected January 1, 2003 as its transition date for embedded derivatives and as at December 31, 2007, determined that no embedded derivatives would be required to be separated from the host contract.

c) Intermediation pool

Equity instruments are designated as available for sale and where a quoted market price in an active market is not available, they are recorded at cost. All other instruments are designated as loans and receivables and are recorded at amortized cost using the effective interest method. Interest and dividend income earned are included in the Financial revenue — Intermediation pool using the accrual basis of accounting. Accrued interest or dividends receivable are included with the corresponding principal balance.

Investment in Celero Solutions (Celero)

Investments over which the Organization has significant influence are accounted for using the equity method. Under this method, the Organization accounts for its share of the net earnings (loss) of the investment. The book value of the investment is adjusted for the share of net earnings (loss) and distributions received from the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary.

Celero is an unincorporated venture that provides information technology services to the venture participants (owners), credit unions and other organizations. Pursuant to the venture agreement, the Organization has a 25.3% ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc. ("Everlink"), an incorporated entity that provides electronic switching services.

The Organization's share of Celero's net earnings (loss) is based upon the net earnings (loss) of the business lines that it contributed to the venture and its ownership interest in the net earnings (loss) of Celero's remaining operations.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's net earnings. Conversely, should Celero incur a net loss from operations, the Organization records an offsetting revenue and an amount recoverable from members.

d) Members' deposits

Members' deposits are designated as held for trading and recorded at their fair value initially using the settlement date for recognizing transactions, and thereafter are based on a discounted cash flow methodology using observable market inputs. Interest expense is included in Cost of funds using the accrual basis of accounting. Gains and losses arising from subsequent market valuations are recognized in the consolidated statement of operations as Unrealized gains (losses) on instruments held for trading.

INCOME TAXES

The asset and liability method is used to account for future income taxes. Under this method, future income tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts and the tax bases of assets and liabilities including equity accounted investments. Future income tax assets and liabilities are measured using substantively enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the substantive enactment date. Future income tax assets are recognized to the extent that realization is considered more likely than not.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from such estimates.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization are recorded annually by the Organization at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

Technology and equipment	3 to 5 years
Furniture	5 to 10 years
Leasehold improvements	remaining term of the lease
Building	50 years

FUTURE CHANGES TO ACCOUNTING POLICIES
CAPITAL DISCLOSURES AND FINANCIAL INSTRUMENTS — DISCLOSURES AND PRESENTATION

On December 1, 2006, the CICA issued three new accounting standards: CICA 1535 — *Capital Disclosures*; CICA 3862 — *Financial Instruments - Disclosures*; and CICA 3863 — *Financial Instruments - Presentation*. The Organization is required and will adopt the standards in fiscal 2008. Management is currently evaluating the impactof these reporting standards.

CICA 1535 specifies disclosures of i) an entity's objectives, policies and process for managing capital; ii) quantitative data about what the entity regards as capital; and iii) whether the entity has complied with any capital requirements and the consequences of non-compliance with such requirements.

CICA 3862 and 3863 replace CICA 3861 — *Financial Instruments - Disclosure and Presentation*, and detail all the disclosure requirements and presentation rules applicable to financial instruments. These new standards place increased emphasis on qualitative and quantitative disclosures about the nature and extent of risks arising from financial instruments to which the Organization is exposed and how it manages those risks.

[2] Liquidity Pool

	2007			2006
in thousands of dollars	**Held for Trading**	**Held to Maturity**	**Total**	**Total**
Debt Securities				
Governments	2,251	—	2,251	25,627
Banks and trust companies	822,717	71,714	894,431	824,556
Corporate	894,851	18,439	913,290	768,687
Non-specific provision for doubtful securities				(1,000)
	1,719,819	90,153	1,809,972	1,617,870
Derivatives	4,933	—	4,933	—
Cash (Overdraft)	(40,401)	—	(40,401)	16,027
	1,684,351	90,153	1,774,504	1,633,897

The fair value of debt securities held to maturity is $89,129,000. The decline in fair value over carrying value is due to the international credit and liquidity crisis which has caused a temporary diminution in the value of the securities. Furthermore, none of the underlying securities have been downgraded by rating agencies.

The Organization serves as a source of liquidity for member credit unions. As such, all of the assets in the liquidity pool are readily convertible into cash. The Organization does not invest in third party Asset Backed Commercial Paper.

All Debt Securities held by the Organization are with investees whose minimum credit rating must equal or exceed "R-1 Low" (for commercial paper) and "A" (for bonds) as published by DBRS Limited or equivalent ratings by Standard & Poor's Corporation or Moody's Corporation. Non-chartered bank investments with a remaining term to maturity beyond 13 months must be rated "AA" or higher. The minimum rating for the major Canadian chartered banks is "A".

Debt securities credit rating and period of maturity are as follows:

in thousands of dollars	Less than 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Total
Credit Rating						
AAA (R1H)	731,202	34,588	43,649	27,030	2,471	838,940
AA (R1M)	187,928	154,993	135,058	111,930	357,971	947,880
A (R1L)	21,146	158	—	—	1,848	23,152
Total	940,276	189,739	178,707	138,960	362,290	1,809,972

[3] Intermediation pool

in thousands of dollars	2007	2006
Member loans and investments		
Credit unions	98,149	72,953
Co-operatives	1,630	1,562
Shares		
Credit Union Central of Canada	3,707	3,628
Co-operatives	5,431	5,161
Mortgage and loan investments	549	601
Investment in Celero		
Loans receivable	14,386	9,981
Share of undistributed earnings (loss)	(647)	872
	123,205	94,758

The fair value of loans, investments and mortgages approximate their carrying value as these investments are generally due on demand at their carrying value.

The fair value of shares are not readily determinable as they represent investments in equity instruments that do not have quoted market prices in an active market and accordingly fair value cannot be measured reliably.

At inception, the investment in all intermediation pool assets represented their fair value.

[4] Service related assets

in thousands of dollars	2007	2006
Land	1,379	—
Building	13,818	—
Technology and equipment, furniture and leasehold improvements	10,851	10,064
Accumulated depreciation and amortization		
Building	(265)	—
All other	(6,385)	(5,089)
	19,398	4,975
Receivables	4,558	2,946
Prepaids and inventories	675	885
Future income taxes [note 8]	1,198	178
	6,431	4,009
	25,829	8,984

Depreciation and amortization recorded during the year was $1,673,000 (2006 — $1,340,000). Technology and Equipment includes $993,000 related to projects under development that are not depreciated.

[5] Share capital

AUTHORIZED

Share capital consists of an unlimited number of Class I and II shares, to be issued and redeemed at $5 each.

MEMBERSHIP

Every member of the Organization is required to own a minimum of two Class I shares.

Pursuant to the Organization's by-laws, member credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

RIGHTS AND PRIVILEGES

At the discretion of the Organization's directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

ISSUED AND OUTSTANDING

in thousands of dollars	2007	2006
Class I		
Manitoba credit unions	48,000	41,630
Co-operatives	1,228	1,228
Class II		
Manitoba credit unions	54,000	48,555
	103,228	91,413

During the year, $7,113,000 (2006 — $6,130,000) of Class I shares and $12,556,000 (2006 — $10,055,000) of Class II shares were issued for cash consideration, and $743,000 (2006 — Nil) of Class I shares and $7,111,000 (2006 — $4,100,000) of Class II shares were redeemed.

[6] Related party transactions

The Organization and Celero provide various services to each other in the normal course of operations and such services are measured at the exchange amount. During the year, the Organization's charges to Celero aggregated $2,244,000 (2006 — $2,644,000) and Celero's charges to the Organization aggregated $454,000 (2006 — $508,000). The net recovery from Celero of $1,790,000 (2006 — $2,136,000) is included as an offset to net operating expense. [note 7]

Interest charges to Celero were $611,000 (2006 — $572,000) for the year.

Accounts payable includes $38,000 due to Celero (2006 — $28,000 due from Celero).

[7] Net operating recovery

in thousands of dollars	2007	2006
Recoveries from members		
Clearing fees and other financial charges	6,370	6,055
Basic assessment	3,971	3,633
Fee for service	2,160	2,454
Liquidity management assessment	1,269	951
Printing and supplies — net of cost of $928 (2006 — $969)	299	338
The Credit Union Deposit Guarantee Corporation fees	216	201
Patronage rebate — The Co-operators	22	182
	14,307	13,814
Operating expenses		
Personnel	7,326	6,999
Depreciation, amortization and leasing	1,851	1,562
National shared costs	1,347	1,324
Settlement costs	1,005	886
Occupancy costs	848	1,950
Professional services	738	827
Co-operative democracy	457	448
Hardware and software maintenance	386	369
General	349	402
Printing and supplies	290	305
Dues, grants and memberships	238	203
Travel	223	233
Telephone and computer telecommunications	139	125
Insurance and bonding	134	134
Postage and delivery	79	68
Net recovery from Celero	(1,790)	(2,136)
	13,620	13,699
Net operating recovery	687	115

[8] Provision for income taxes

The Organization provides for income taxes at statutory rates of 16.1% (2006 — 17.6%) as determined below:

shown as %	2007	2006
Federal base rate	38.0	38.0
Federal abatement	(10.0)	(10.0)
Additional deduction for credit unions	(16.0)	(16.0)
Federal surtax	1.1	1.1
Net federal tax rate	13.1	13.1
Provincial tax rate	3.0	4.5
	16.1	17.6

The Organization's accounting income for tax purposes and related provision for income taxes are as follows:

in thousands of dollars	2007	2006
Income before income taxes	(4,712)	4,297
Non-taxable items		
Dividends on Co-operative shares	(397)	(404)
All other adjustments	87	57
Accounting income (loss) for tax purposes	(5,022)	3,950

in thousands of dollars	2007	2006
Expected provision for (recovery of) income taxes at statutory rates	(809)	696
Change in expected future tax rates	285	—
Other adjustments — net	37	(16)
Provision for (recovery of) income taxes on accounting income for tax purposes	(487)	680
Income tax savings on the payment of dividends	(667)	(598)
Total provision for (recovery of) income taxes	(1,154)	82

Dividends charged against reserves are net of the foregoing related income tax savings of $667,000 (2006 — $598,000).

The components of the total provision for (recovery of) income taxes are as follows:

in thousands of dollars	2007	2006
Provision for current income taxes	118	181
Recovery of future income taxes	(1,272)	(99)
Provision for (recovery of) income taxes	(1,154)	82

The significant components of future income taxes [note 4] are as follows:

in thousands of dollars	2007	2006
Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes	(186)	(108)
Non-specific provision for doubtful securities	—	176
Unrealized gains (losses) on instruments held for trading	1,292	—
Provisions for expenditure currently not deductible for income tax purposes	(92)	110
Future income taxes	1,198	178

[9] Directors' expenses

Directors received remuneration of $201,000 (2006 — $180,000) and expense reimbursement of $36,700 (2006 — $42,000).

[10] Pension Plan

The Organization has a defined contribution pension plan for qualifying employees. The contributions are held in trust by the Cooperative Superannuation Society Limited and are not recorded in these financial statements. The Organization matches employee contributions at the rate of 6% of the employee salary. The expense and payments for the year ended December 31, 2007 were $305,000 (2006 — $299,000). As a defined contribution pension plan, the Organization has no further liability or obligation for future contributions to fund benefits to plan members.

[11] Commitments

a. CELERO

Celero has entered into a *Software License Agreement* in respect of a new banking platform for Celero's credit union clients under which Celero is committed to pay $4,749,000 in software license fees over the next year. Celero is also committed under the terms of the agreement to pay a total of $23,833,000 in software maintenance fees over the next eight years. Celero has entered into agreements with credit unions to recover these costs through license and fixed and variable implementation fees over the term of these agreements.

Pursuant to various addendums to the *Software License Agreement*, Celero is committed to pay $11,302,000 in ancillary product maintenance and support fees over the next eight years.

Celero has obligations under various agreements for equipment, licensing, maintenance and professional fees.

The Organization is indirectly liable in proportion to its ownership interest (25.3%) in Celero, for all of Celero's covenants and obligations under these agreements. Proportionate commitments in each of the next five years are as follows:

in thousands of dollars	Banking Platform	Ancillary Products	Other	Total
2008	1,888	193	398	2,479
2009	763	381	62	1,206
2010	763	381	58	1,202
2011	763	381	—	1,144
2012	763	381	—	1,144

b. EVERLINK

Celero has a 49% ownership interest in Everlink. In proportion to its 25.3% ownership interest in Celero, the Organization is indirectly liable for all of Celero's covenants and obligations under the following Everlink agreements.

Purchase of Switching Business

Under the terms of an *Asset Purchase Agreement* Everlink acquired switching assets from third parties ("Vendor"). Everlink's principal remaining obligations under the purchase agreement are to continue to perform certain assumed obligations relating to customer and supplier contracts assigned to Everlink by the Vendor. These obligations expire in 2012.

Similar obligations exist under ancillary service agreements with the Vendor to provide switching services to the Vendor's customers which expire in 2013.

Celero has provided a guarantee on these agreements in proportion to its ownership interest (49%) in Everlink. In the normal course of business, Everlink has met, and is expected to meet, all of its obligations under these agreements.

Financing Arrangements

Everlink has entered into financing agreements, consisting of a line of credit to a maximum of $2,000,000 and an authorized overdraft facility to a maximum of $6,375,000 Canadian dollars and $100,000 U.S. dollars. Celero has provided a guarantee on these agreements in proportion to its interest in Everlink. At December 31, 2007 there were no draws against the line of credit or the authorized overdraft facility.

[12] Guarantees

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counterparties. The Organization maintains liability insurance coverage for directors and officers.

[13] Asset/Liability Management

The Organization has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk) and to movements in foreign exchange rates (referred to as foreign exchange risk). In the absence of these policies, the Organization's earnings would be impacted, either positively or negatively, as interest and exchange rates change. Additionally, the Organization is potentially exposed to financial loss resulting from the failure of a counterparty to fully honour its financial or contractual obligations relating to derivative contracts (referred to as credit risk).

The Organization also acts as an intermediary for its members in the management of interest rate risk and foreign exchange risk.

a. INTEREST RATE RISK

One of the major sources of income for the Organization is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. The following summarized schedule shows the Organization's sensitivity to interest rate changes:

in thousands of dollars

Interest repricing period	Interest sensitive	Not interest sensitive	Swaps Receiving	Swaps Paying	Net asset/liability mis-match
0 to 6 months	(467,314)	(1,644)	500,273	(63,066)	(31,751)
6 to 12 months	103,677	(35,412)	20,000	(56,405)	31,860
1 to 2 years	6,515	(6,746)	—	—	(231)
2 to 3 years	56,639	(13,719)	—	(43,000)	(80)
3 to 4 years	89,646	(20,462)	—	(69,000)	184
4 to 5 years	230,045	(18,526)	—	(211,500)	19
Over 5 years	77,301	—	—	(77,302)	(1)
	96,509	(96,509)	520,273	(520,273)	—

The average interest rate for interest-bearing assets is 4.67% and for interest-bearing liabilities is 4.40%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Organization's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Organization has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counterparty involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The contracted terms of the swaps are specifically matched to specific terms of debt securities. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate agreements is the responsibility of the member credit unions. The credit risk associated with the index-linked agreements is the responsibility of the Organization.

b. FOREIGN EXCHANGE RISK

The Organization has assets and liabilities denominated in U.S. dollars. The Organization has established a policy to limit its exposure to changes in the U.S. dollar exchange rate to prevent significant financial margin fluctuations.

The Organization enters into foreign exchange forward rate agreements for the purpose of ensuring that its policy limitation is not exceeded and to provide a financial intermediary role for credit unions. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counterparty involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into forward rate agreements for speculative purposes.

As at December 31, 2007, the Organization has entered into foreign exchange forward rate agreements to buy U.S. dollars aggregating U.S. $6,855,000 and to sell U.S. dollars aggregating U.S. $5,045,000, inclusive of transactions with member credit unions. The credit risk associated with these agreements is the responsibility of the Organization.

c. CREDIT RISK

The Organization's exposure to credit risk, represented by the cost to replace swap agreements in the event of the failure of a counterparty, is $4,651,000 as at December 31, 2007. The counterparty for all such agreements is restricted to the major chartered banks and member credit unions, and therefore management considers the Organization's credit risk to be negligible.

[14] Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

[THE CO-OPERATIVE PRINCIPLES]

The Seven International Co-operative Principles are guidelines by which co-operatives put their values into practice. Part of CUCM's mission is to promote these principles.

1st Principle: Voluntary and Open Membership
Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2nd Principle: Democratic Member Control
Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary co-operatives members have equal voting rights (one member, one vote) and co-operatives at other levels are also organized in a democratic manner.

3rd Principle: Member Economic Participation
Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4th Principle: Autonomy and Independence
Co-operatives are autonomous, self-help organizations controlled by their members. If they enter to agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their co-operative autonomy.

5th Principle: Education, Training and Information
Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public — particularly young people and opinion leaders — about the nature and benefits of co-operation.

6th Principle: Co-operation among Co-operatives
Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7th Principle: Concern for Community
Co-operatives work for the sustainable development of their communities through policies approved by their members.

Dedicated to serving Manitoba

The strength of the Manitoba credit union system is people. Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.

50 FIFTY YEARS

Marjorie Marciski Director, Beautiful Plains Credit Union

40 FORTY YEARS

Don Angus Chief Information Officer, Virden Credit Union

35 THIRTY-FIVE YEARS

Greg Fleck General Manager, Beautiful Plains Credit Union
Jim Neufeld Branch Manager, Crosstown Civic Credit Union
Dave Omichinski Chief Executive Officer, Portage Credit Union
Don Pringle Vice-President Technology, Westoba Credit Union
Joyce Reimer Marketing Co-ordinator, Steinbach Credit Union
Valerie Soltys General Manager, Erickson Credit Union
Richard Ward Senior Loans Clerk, Virden Credit Union

30 THIRTY YEARS

Marlene Forsyth Loans Officer, Eriksdale Credit Union
Hank Hildebrand Chief Operations Officer, Agassiz Credit Union
Debbie Ingelbeen Administrative Supervisor, Ste. Rose Credit Union
Gordon Kirkwood Chief Executive Officer, Entegra Credit Union
Donna Larner Administration Officer, Sanford Credit Union
Leianne Lea Loans Administrator, Agassiz Credit Union
Evelyn Murray MSR/Teller, Dauphin Plains Credit Union
Deb Norton Loans Officer, Turtle Mountain Credit Union
Pattie Opperman MSR/Head Teller, Turtle Mountain Credit Union
Sandra Reimer Loan Compliance Administrator, Steinbach CU
Brenda Roberts Loans Officer III, Westoba Credit Union
Linda Robertson Member Services Supervisor, Dauphin Plains CU
Colette Robinson Loan Secretary, Dauphin Plains Credit Union
Alice Sahulka Branch Supervisor, Dauphin Plains Credit Union
Betty-Ann Slon VP Relationships and Marketing, Vanguard CU
Arnold Ternowski Co-CFO, Crosstown Civic Credit Union
Theresa Wright Branch Manager, Westoba Credit Union

25 TWENTY-FIVE YEARS

Randy Brown VP Business Development, Westoba Credit Union
Don Deamel Banking Systems Operator, Celero Solutions
Rick Doerksen Director Business Consulting, CUCM
Carmelyn Duncan Clearing Administrator, Steinbach CU
Ed Giesbrecht West Regional Manager, Agassiz Credit Union
Audrey Halvorsen Branch Manager, Westoba Credit Union
Selena Hogue Member Services Supervisor/Investment Specialist, Eriksdale C
Marcia Kroeker Teller, Niverville Credit Union
Ernie Reimer Director, Niverville Credit Union
Dwight Sander Loans Officer, Eriksdale Credit Union
Jill Sharman Manuals Centre Manager, CUCM
Sandra Stahn Consumer Loan Receptionist, Steinbach Credit Union
Kathy J. Vodden General Manager, Hartney Credit Union
Pam Williams Corporate Office Assistant, Westoba Credit Union

In 2007, **AGASSIZ, ETHELBERT** ***and*** **MINNEDOSA CREDIT UNIONS** ***celebrated their 60th anniversaries, and*** **RIVERTON CREDIT UNION** ***celebrated its 50th anniversary***

Credit Union Central of Manitoba Limited
Incorporated in 1950 by Statute of
the Province of Manitoba, Canada

CREDIT SOCIETY / AGENT BANK
Credit Union Central of Canada
Bank of Nova Scotia

EXTERNAL AUDITORS
PricewaterhouseCoopers LLP

SOLICITORS
PITBLADO LLP

CONSULTING ECONOMISTS
Dr. John Loxley
Dr. Brian Oleson

400-317 Donald Street | Winnipeg, Manitoba R3B 2H6 | Tel 204.985.4700